



中裕燃气

Zhongyu Gas Holdings Limited

中裕燃气控股有限公司



Annual Report  
年報 2004

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**This report, for which the directors of Zhongyu Gas Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Zhongyu Gas Holdings Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.**

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# Corporate Information

## EXECUTIVE DIRECTORS

Mr. Wang Wenliang (*Chairman*)  
Mr. Hao Yu (*Chief Executive Officer*)  
Mr. Lu Zhaoheng

## NON-EXECUTIVE DIRECTORS

Mr. Xu Yongxuan (*Vice Chairman*)  
Mr. Wang Lei  
Mr. Nicholas John Ashley Rigg

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Shunlong  
Mr. Luo Yongtai  
Mr. Hung, Randy King Kuen

## QUALIFIED ACCOUNTANT

Mr. Lui Siu Keung

## COMPANY SECRETARY

Mr. Lui Siu Keung

## COMPLIANCE OFFICER

Mr. Hao Yu

## AUTHORISED REPRESENTATIVES

Mr. Wang Wenliang  
Mr. Hao Yu

## AUDIT COMMITTEE

Mr. Wang Shunlong  
(*Chairman of the audit committee*)  
Mr. Luo Yongtai  
Mr. Hung, Randy King Kuen

## REGISTERED OFFICE

Century Yard  
Cricket Square  
Hutchins Drive  
P.O. Box 2681 GT  
George Town  
Grand Cayman  
British West Indies

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 3016, 30th Floor  
One International Finance Centre  
1 Harbour View Street  
Central, Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited  
36C Bermuda House, 3rd Floor  
P.O. Box 513 G.T.  
Dr. Roy's Drive, George Town  
Grand Cayman, Cayman Islands  
British West Indies

## AUDITORS

Deloitte Touche Tohmatsu

## PRINCIPAL BANKER

Standard Chartered Bank

## BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Secretaries Limited  
Ground Floor  
Bank of East Asia Harbour View Centre  
56 Gloucester Road  
Wanchai, Hong Kong

## STOCK CODE

8070

# Chairman's Statement

On behalf of the board of directors of Zhongyu Gas Holdings Limited (the "Company"), I am pleased to present the results of the Company and its subsidiaries (collectively the "Group") for the eighteen months ended 31st December, 2004.

## FINANCIAL REVIEW

The Group achieved a turnaround in its financial results in the period covered by this report. For the eighteen months ended 31st December, 2004, the Group recorded a net profit of approximately HK\$915,000, as compared to a net loss of approximately HK\$5,391,000 for the year ended 30th June, 2003. The growth is mainly attributable to the expansion of the Group's principal activities to comprise natural gas business in addition to the original Human Resource Management ("HRM") software business and the enhancement of quality sales force as well as the implementation of the stringent cost control measures.

## BUSINESS REVIEW

During the period under review, the Group successfully acquired Linyi China Gas City Gas Construction Company Limited and formed the Hanzhong China-Gas City Gas Development Company Limited. Besides, subsequent to the financial year ended, the Group formed Linyi ZhongYu City Gas Construction Development Company Limited. The Group currently secured three natural gas projects in the PRC. As a result, the Group diversified its principal activities into the natural gas business. In order to reflect the diversification of the Group into the natural gas business, the name of the

Company has been changed from "MRC Holdings Limited" to Zhongyu Gas Holdings Limited. The Group has commenced to charge the gas connection fees since April 2004. For the period under review the Group has recorded a turnover of approximately HK\$2,012,000 derived from the gas connection fees.

During the period under review, the Group's HRM software business originally engaged by the Group also achieved encouraging operating results although the Group faced keen competition. For the eighteen months ended 31st December, 2004, the Group recorded a turnover of approximately HK\$8,162,000 derived from development and sale of software as compared to that of approximately HK\$5,345,000 for the year ended 30th June, 2003 and a turnover of approximately HK\$4,546,000 derived from software maintenance service as compared to that of approximately HK\$2,635,000 for the year ended 30th June, 2003

## OUTLOOK

Due to the growing prosperity and annual gross domestic production per capita in the People's Republic of China ("PRC") as well as the increasing awareness of environment protection in the PRC, the Directors believe that the demand for the natural gas in the PRC would increase as natural gas is considered to be an environmentally clean source of energy. The Group will strive to obtain more exclusive gas projects in the PRC to enhance its market position and to improve its financial performance, so as to benefit further from the sustained growth of the natural gas industry in the PRC.

## Chairman's Statement

With the continues improvement of the economies in the PRC and Hong Kong, the business environment in both the PRC and Hong Kong becomes more favourable. The Directors believe that the demand for the Group's HRM software would increase. Nevertheless, the prospects for the IT industry is still challenging due to keen competition from local and overseas competitors. As such, the Group would stay vigilant over the market environment and would maintain a prudent and conservative approach to its software business.

In order to improve the Group's operating results, the Group will continue to implement stringent cost control measures.

### APPRECIATION

Finally, I would like to extend my greatest appreciation to our management team and staff for their dedication and contribution. I would also like to take this opportunity to express appreciation to our shareholders and customers for their continuous support and confidence in the Group.

**Wang Wenliang**  
Chairman

Hong Kong, 22nd March, 2005

# Management Discussion and Analysis

## BUSINESS AND OPERATIONAL REVIEW

On 9th October, 2003, Zhongyu Gas Holdings Limited (the "Company") raised the net proceeds of approximately HK\$19,500,000 by issuing 405,400,000 shares (the "Shares") of the Company by way of rights issue so as to strengthen its capital base and improve its financial position and thus to provide flexibility to pursue any new business opportunities for the future development and expansion of the Company and its subsidiaries (collectively the "Group"), the details of which were set out in the announcement of the Company dated 15th August, 2003 and the circulars of the Company dated 5th September, 2003 and 23rd September, 2003 respectively. Among the net proceeds of approximately HK\$19,500,000, HK\$9,000,000 was used to finance the Group's portion of contribution to the Hangzhong JV (as defined herein), HK\$3,000,000 was used to finance part of the Group's portion of contribution to the Linyi ZhongYu JV (as defined herein) and the remaining approximately HK\$7,500,000 was used as a general working capital of the Group.

On 19th December, 2003, the Group completed the acquisition (the "Acquisition") of 97% equity interest in China Gas Construction Expansion Company Limited ("China Gas Construction"), the details of which were set out in the announcement of the Company dated 26th November, 2003 and the circular of the Company dated 15th December, 2003. The consideration of the Acquisition of approximately HK\$13,232,000 was settled by allotting and issuing 150,000,000 new Shares. China Gas Construction is an investment holding company of which the principal asset is the holding of 100% interest in Linyi China Gas City Gas Construction Company Limited ("Linyi China Gas"), a wholly-foreign-owned enterprise established in the People's Republic of China (the "PRC") on 18th July, 2003. Linyi China Gas is principally engaged in the development, construction and operation of natural gas projects in Linyi Economic Development District, Linyi City, Shandong Province, the PRC. Its main business activities include the design and construction of natural gas pipeline

network and ancillary facilities and sale of natural gas, as well as the sale and maintenance of natural gas appliances. Linyi China Gas was granted the exclusive right to develop, construct and operate natural gas projects in the Linyi Economic Development District, Linyi City for a period of 50-year.

Upon completion of the Acquisition, the Group expanded its principal activities to comprise the natural gas business in addition to the Human Resource Management ("HRM") software business originally engaged by the Group. Accordingly, the Group's source of income has increased.

As at 31st December, 2004, Linyi China Gas had built natural gas pipeline of approximately 12 km and there were two industrial users completed the connection of the natural gas pipeline. Linyi China Gas has charged the gas connection fees during the period under review. Since the West-to-East Gas project are not yet completed, Linyi China Gas was still out of natural gas supply, and thus, no revenue derived from sales of natural gas is recorded during the period under review. According to the construction progress of the West-to-East Gas project, it is expected that Linyi China Gas will commence to deliver natural gas to its customer in the early of 2006. In September 2004, Linyi China Gas entered into an agreement with China National Petroleum Company Limited (中石油天然氣股份有限公司) ("CNPC") pursuant to which CNPC agreed to supply natural gas to Linyi China Gas in order to secure adequate natural gas supply.

Pursuant to the sales and purchase agreement dated 26th November, 2003 entered into between Portwood International Limited ("Portwood"), a wholly-owned subsidiary of the Company, as purchaser, and Mr. Zheng Gang, as vendor in respect of the Acquisition, Mr. Zheng Gang had irrevocably undertaken to Portwood that should any loss (the "Loss") be recorded in the audited profit and loss account of Linyi China Gas for the year ended 31st December, 2004 prepared by a qualified accountant in the PRC, Mr. Zheng Gang should pay Portwood 97% of the sum of RMB3,000,000



## Management Discussion and Analysis

(equivalent to approximately HK\$2,830,000) and the Loss. According to the management account of Linyi China Gas for the year ended 31st December, 2004, Linyi China Gas recorded a loss of approximately RMB911,000 (equivalent to approximately HK\$860,000). Accordingly, the total compensation to be received by Portwood from Mr. Zheng Gang will be approximately RMB3,790,000 (equivalent to approximately HK\$3,580,000).

On 20th February, 2004, the name of the Company was changed from "MRC Holdings Limited" to "Zhongyu Gas Holdings Limited 中裕燃氣控股有限公司". The board of directors of the Company (the "Directors") considers that such change would better reflect the diversification of the Group into the natural gas business.

On 18th March, 2004, Portwood and Hanzhong City Natural Gas Company Limited ("Hanzhong City Natural Gas") entered into a joint venture agreement (the "Hanzhong JV Agreement"), pursuant to which, both parties thereto agreed to establish Hanzhong China-Gas City Gas Development Company Limited ("Hanzhong JV"), the details of which were set out in the announcement of the Company dated 18th March, 2004 and the circular of the Company dated 8th April, 2004. The Hanzhong JV is principally engaged in the construction and operation of natural gas projects in Hanzhong City, Shaanxi Province, the PRC. Its main business activities include design and construction of natural gas pipeline network and ancillary facilities and sale of natural gas, as well as sale and maintenance of natural gas appliances. On 8th April, 2004, the Hanzhong JV obtained the exclusive right from 漢中市城鄉建設管理局 (Urban Rural Construction Administrative Bureau of Hanzhong City) to engage in the development, construction and operation of piped gas projects in Hanzhong City. The Hanzhong JV is owned as to 90% by Portwood and the remaining 10% by Hanzhong City Natural Gas.

Upon completion of the Hanzhong JV Agreement, the Group further invested in the natural gas business in the PRC in order to

enlarge the geographical coverage of its operation. In addition, having considered that the natural gas project to be undertaken by the Hanzhong JV is on an exclusive basis, and the increase in demand of natural gas in the PRC, the Directors are of the view that the Hanzhong JV could improve the earning base of the Group.

As at 31st December, 2004, the Hanzhong JV had built natural gas pipeline of approximately 42.4 km and there were 2,566 domestic household users and one commercial user completed the connection of the natural gas pipeline. The Hanzhong JV has charged the gas connection fee during the period under review. Since the West-to-East Gas project are not yet completed, the Hanzhong JV was still out of natured gas supply, and thus, no revenue derived from sales of natural gas is record during the period under review. According to the construction progress of the West-to-East Gas project, it is expected that the Hanzhong JV will commence to deliver natural gas to its customer in the early of 2006.

On 2nd November, 2004, the Company raised the net proceeds of approximately HK\$18,250,000 by placing the aggregate of 102,000,000 new Shares at a price of HK\$0.18 per Share to eight independent individual subscribers in order to broaden the Company's shareholders base as well as strength the Company's capital base. Among the net proceeds of approximately HK\$18,250,000, HK\$17,210,000 was used to finance part of the Group's portion of contribution to the Linyi ZhongYu JV (as defined herein) and the remaining approximately HK\$1,040,000 will be used as the Group's general working capital.

On 12th November, 2004, the Company and 臨沂市城市燃氣工程籌建處 (The Department of City Natural Gas Engineering of Linyi City) ("CNGE") entered into a joint venture agreement ("ZhongYu JV Agreement") pursuant to which, both parties thereto agreed to establish Linyi ZhongYu City Gas Company Limited ("Linyi ZhongYu JV"), the details of which were set out in the announcement of the Company dated 12th November, 2004 and the circular of the



Company dated 23rd December, 2004. Linyi ZhongYu JV is principally engaged in the construction and operation of natural gas projects in 蘭山區 (Lan Shan Qu) (exclusive of 南坊片 (Nan Fang Pian)) and part of 羅莊區 (Luo Zhuang Qu), Linyi City, Shandong Province, the PRC. Its main business activities include design and construction of natural gas pipeline network and ancillary facilities and sale of natural gas as well as sale and maintenance of natural gas appliances. The Linyi ZhongYu JV is owned as to 51% by the Company and the remaining 49% by CNGE. The Directors are of the view that the entering into of the ZhongYu JV Agreement could provide an opportunity for the Group to further invest in the natural gas business in the PRC in order to enlarge the geographical coverage of its operation. In addition, having considered that the natural gas project to be undertaken by the Linyi ZhongYu JV is on an exclusive basis and the increase in demand of natural gas in the PRC, the Directors are of the view that the Linyi ZhongYu JV could improve the earning base of the Group.

The total registered capital of Linyi ZhongYu JV is RMB42,000,000 (equivalent to approximately HK\$39,200,000), of which RMB21,420,000 (equivalent to approximately HK\$20,000,000) is contributed by the Group in cash and RMB20,580,000 (equivalent to approximately HK\$19,200,000) is contributed by CNGE by way of contribution in kind. As at 31st December, 2004, the relevant capital verification has not been completed and Linyi ZhongYu JV has not commenced operation. Accordingly, the amount contributed by the Group was accounted for as a deposit for investment in the consolidated balance sheet of the Group at 31st December, 2004.

On 15th November, 2004, the Company and Hezhong Investment Holding Company Limited ("Hezhong") entered into a service agreement (the "Service Agreement") pursuant to which the Group agreed to provide Hezhong and its subsidiaries with the management services, financial management services and human resources management services (collectively the "Management Services") in return for a service fee. The Directors consider that the

entering into of the Service Agreement could broaden the Group's source of income and thus improve its profitability. In addition, the Directors are of the view that the entering into of the Service Agreement could increase the Group's bargaining power when negotiating with customers for the provision of natural gas projects management services if and when opportunities arise in the future. For further details, please refer to the paragraph headed "Ongoing connected transaction" under the section headed "Directors' report" of this report.

## FINANCIAL REVIEW

### Overall

During the period under review, the Group is principally engaged in (i) the development, construction and operation of natural gas projects in the PRC, which principally include design and construction of natural gas pipeline network and ancillary facilities and sale of natural gas, as well as sale and maintenance of natural gas appliances; and (ii) the business of HRM solution provision in Hong Kong and the PRC, which principally include development and sale of HRM software, as well as provision of related consultancy services including the project management, implementation and maintenance of the HRM system.

The Group's audited turnover for the eighteen months ended 31st December, 2004 amounted to approximately HK\$15,267,000, as compared to the turnover of approximately HK\$8,226,000 for the year ended 30th June, 2003. Of the Group's total turnover, approximately 13.2% was derived from the gas connection fees, approximately 53.4% was derived from development and sale of software, approximately 29.8% was derived from render of software maintenance services and the remaining approximately 3.6% was derived from others operations.

For the eighteen months ended 31st December, 2004, the Group's overall gross profit margin was approximately 68.8%, representing a decrease of approximately 5.3% over the year ended 30th June, 2003. The decrease was

## Management Discussion and Analysis

mainly attributable to the introduction of gas connection fees with a gross profit margin of approximately 49.0% since April 2004.

The Group recorded other operating income of approximately HK\$10,131,000, mainly comprising management fee income of HK\$9,600,000, recognised for the provision of the Management Services by the Group to Hezhong and its subsidiaries during the period under review pursuant to the Service Agreement.

The Group's distribution costs for the eighteen months ended 31st December, 2004 amounted to approximately HK\$2,378,000, representing approximately 15.6% of the Group's turnover. As compared to that of approximately 22.2% for the year ended 30th June, 2003, the decrease in distribution costs as a percentage of the Group's turnover was mainly attributable to the implementation of the stringent cost control measures.

For the eighteen months ended 31st December, 2004, the Group's administrative expenses and average administrative expenses per month amounted to approximately HK\$13,925,000 and HK\$774,000 respectively. As compared to that of approximately HK\$655,000 for the year ended 30th June, 2003, the increase in the Group's average administrative expenses per month was mainly attributable to the diversification of the Group's business, comprising the acquisition of Linyi China Gas and the formation of the Hanzhong JV.

The Group's other operating expenses for the eighteen months ended 31st December, 2004 amounted to approximately HK\$2,646,000, representing approximately 17.3% of the Group's turnover. As compared to that of approximately 29.7% for the year ended 30th June, 2003, the decrease in other operating expenses as a percentage of the Group's turnover was mainly attributable to the implementation of the stringent cost control measures.

As a result from the above, the Group's audited net profit for the eighteen months ended 31st

December, 2004 amounted to approximately HK\$915,000, as compared to a net loss of approximately HK\$5,391,000 for the year ended 30th June, 2003.

The Board does not recommend the payment of any dividend for the eighteen months ended 31st December, 2004.

Basic profit per share for the eighteen months ended 31st December, 2004 amounted to approximately HK0.11 cent.

As at 31st December, 2004, the financial position of the Group remains healthy with a non-gearing capital structure.

### The business of Natural Gas Supply

#### *Gas Connection Fees*

Subsequent to the acquisition of Linyi China Gas, the Group's turnover stream was expanded to include revenue derived from gas connection fees. The Group has commenced to charge the gas connection fees since April 2004. For the eighteen months ended 31st December, 2004, the turnover of the Group derived from the gas connection fees amounted to approximately HK\$2,012,000.

For the eighteen months ended 31st December, 2004, the gross profit margin of the gas connection fees was approximately 49.0%.

### The business of HRM Software Provision

#### *Development and sale of software*

For the eighteen months ended 31st December, 2004, the Group's turnover and average turnover per month derived from development and sale of software amounted to approximately HK\$8,162,000 and HK\$453,000 respectively. As compared to that of approximately HK\$445,000 for the year ended 30th June, 2003, the slight increase in average turnover derived from development and sale of software was mainly attributable to the enhancement of quality sales forces.

For the eighteen months ended 31st December, 2004, the gross profit margin of development and sales of software was approximately 61.3%, representing a decrease of approximately 6.5% over the year ended 30th June, 2003. The decrease was mainly attributable to the intensive pricing competition.

#### *Render of Software maintenance services*

For the eighteen months ended 31st December, 2004, the turnover and the average turnover per month of the Group derived from the render of software maintenance services amounted to approximately HK\$4,546,000 and HK\$253,000 respectively. As compared to that of approximately HK\$220,000 the year ended 30th June, 2003, the increase in average turnover per month derived from render of software maintenance services was mainly attributable to the increase of the accumulated number of customers using the HRM software.

For the eighteen months ended 31st December, 2004, the gross profit margin of software maintenance services income was approximately 86.9%, representing an increase of approximately 4.3% over the year ended 30th June, 2003. The increase was mainly attributable to the implementation of the stringent cost control measures.

## **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

### **Liquidity**

As at 31 December 2004, the Group had net current assets of approximately HK\$23,217,000. It represented the Group had a healthy financial position to meet its short-term liabilities.

The current assets of the Group as at 31 December 2004 amounted to approximately HK\$36,860,000, comprising inventories of approximately HK\$3,083,000, trade receivables of approximately HK\$4,821,000, deposits, prepayments and other receivables of approximately HK\$5,925,000, amount due from a director and loan to an officer of approximately HK\$112,000 and bank balances

and cash of approximately HK\$22,919,000.

As at 31 December 2004, the current liabilities of the Group amounted to approximately HK\$13,643,000, comprising deferred income and advance received of approximately HK\$1,578,000, amounts due to customers for contract work of approximately HK\$111,000, trade payables of approximately HK\$2,462,000, other creditors and accrued charges of approximately HK\$3,750,000 and amounts due to related companies of approximately HK\$5,742,000. The amounts due to related companies are unsecured, interest-free and have no fixed repayments terms.

As at 31 December 2004, the Group's current ratio, represented by a ratio of current assets to current liabilities, was approximately 2.7 (30 June 2003: 1.0).

As at 31 December 2004, the Group's gearing ratio, represented by a ratio of bank borrowings and long-term debts to total shareholders' equity, was nil (As at 30 June 2003: nil) as the Group did not have any outstanding bank borrowing and long-term debts.

### **Financial resources**

During the period under review, the Group generally financed its operations with equity funding and internally generated resources.

### **Directors' opinion on sufficiency of working capital**

In view of the Group's strong financial and liquidity positions and in the absence of unforeseen circumstances, the Directors are of the opinion that the Group has sufficient working capital for its present requirements.

## **EXPOSURE TO EXCHANGE RATE FLUCTUATIONS**

During the period under review, the Group experienced only immaterial exchange rates fluctuations as most of the Group's monetary assets and liabilities were denominated in either Hong Kong Dollars or Renminbi and the Group conducted its business transactions

# Management Discussion and Analysis

principally in these types of currency. The Group considered that as the exchange rate risk of the Group is considered to be minimal, the Group did not employ any financial instruments for hedging purposes.

## EMPLOYEE INFORMATION

As at 31 December 2004, the Group had 120 employees (2003: 37) in Hong Kong and the PRC, and the total remuneration for the period under review was approximately HK\$10,057,000 (2003: HK\$7,029,000). The increase of number of staff in the Group was mainly attributable to the inclusion of staff of the Linyi China Gas, acquired by the Group and the Hanzhong JV, formed by the Group during the period under review.

The Group's remuneration and bonus policies are basically determined by the performance of individual employees.

The Group has adopted a share option scheme whereby certain employees of the Group may be granted options to acquire shares.

## CHARGE ON THE GROUP'S ASSETS

As at 31 December 2004, the Group did not have any charges on the Group's assets.

## DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

As at 31 December 2004, the Directors did not have any future plans for material investment or capital assets.

## ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENTS

Save as disclosed in the paragraph headed "Business and operational review" under the section headed "Management discussion and analysis" of this report, the Group had no acquisitions, disposals nor significant investments during the period under review.

## CAPITAL COMMITMENTS

	As at 31 December 2004 HK\$'000	As at 30 June 2003 HK\$'000
Capital expenditure contracted, but not provided for	<u>72</u>	<u>-</u>

Capital commitments disclosed above represent an amount in respect of capital contributions to a subsidiary registered in the PRC.

Save as disclosed above, as at 31 December 2004, the Group did not have any significant capital commitments.

## CONTINGENT LIABILITIES

As at 31 December 2004, the Group did not have any contingent liabilities.

# Biographical Information of Directors and Senior Management

## EXECUTIVE DIRECTORS

Mr. Wang Wenliang, aged 34, is the Chairman of the Group. He joined the Group in July 2003. Mr. Wang is responsible for the overall strategic development of the Group. Mr. Wang has held investments in various industries in the PRC including aluminum, property, and information technology. Mr. Wang has been a deputy general manager of a company in Zhengzhou, the PRC (whose principal business is the manufacture and sale of aluminum products) since 1996 and has been a deputy general manager of a company in Henan Province, the PRC (whose principal business is property management and rental) since 1997. Mr. Wang also has been a president of a company in Henan Province, the PRC since 2000, the principal business of which is the provision of software development, networking engineering services, sale of computer and peripheral products, and provision of Internet services. Mr. Wang completed his postgraduate course in Finance in the Chinese Academy of Social Science in the PRC in 2001. Mr. Wang is a chairman of Hezhong Investment Holding Company Limited ("Hezhong").

Mr. Hao Yu, aged 32, is the Chief Executive Officer of the Group. He joined the Group in July 2003. Mr. Hao is responsible for supervising the implementation of the Group's strategic plans and managing the day-to-day operation of the Group. He received his master degree in Enterprise Management from the Tianjin University of Finance and Economics in the PRC in 2001 and is currently pursuing a doctorate degree in Managerial Science and Engineering from the University of Tianjin, the PRC. Mr. Hao has about eight years' working experience in the securities industry in the PRC, holding various positions with responsibilities in daily operations and business planning. Mr. Hao is a director of Hezhong.

Mr. Lu Zhaoheng, aged 40, graduated from 重慶建築工程學院 (The Architecture and Engineering Institute of Chongqing) in 1984, specialising in City Natural Gas Heat Energy Engineering. Mr. Lu has accumulated about 9 years of experience in the development and commercialisation of natural gas in the People's Republic of China. Mr. Lu held various positions in 河南省城鄉規劃設計院 (The City Planning Design Institute of Henan Province) and 鄭州市市政規劃設計院 (The Planning Design Institute of Zhengzhou City) and was mainly responsible for the planning, design and consultation regarding natural gas projects. Mr. Lu is mainly responsible for the management of the Group's piped natural gas projects. Mr. Lu joined the Group on 24th June, 2004.

## NON-EXECUTIVE DIRECTORS

Mr. Xu Yongxuan, aged 59, the vice-chairman of the Group. He graduated from the Beijing Institute of Petroleum, specialising in Geophysics in 1965. Mr. Xu had been an executive director of Greater China Sci-Tech Holdings Limited, the issued shares of which are listed on the main board of the Stock Exchange, for the period from October 2001 to January 2004. Mr. Xu joined the Group on 12th March, 2004.

Mr. Wang Lei, aged 42, graduated from 北京經濟學院 (The Economics Institution of Beijing) in 1984 with a degree in economics. From 1988 to the beginning of 1993, Mr. Wang worked for the State Economic System Reform Commission, PRC as an economist. Mr. Wang gained approximately 6 years of management experience as a vice-chairman in a private company which is principally engaged in the property investment in the PRC. Currently, Mr. Wang is a vice-chairman of board of directors of 北京金融學院 (The Finance Institution of Beijing). Mr. Wang joined the Group on 24 June 2004.



## Biographical Information of Directors and Senior Management

Mr. Nicholas John Ashley Rigg, aged 46, holds a degree of bachelor of arts and degree of master of arts from the University of Oxford. Mr. Rigg has over 25 years of experience in the commercial field and held a position of chief executive officer of various unlisted companies. Mr. Rigg joined the Group on 1st January, 2005.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Shunlong, aged 40, is the chairman of the audit committee of the Company. He is the head of strategic department of SIIC Medical Science and Technology (Group) Limited. He graduated from Tsinghua University in the PRC with a doctoral degree in engineering and was employed by the Eindhoven University of Technology in The Netherlands as a researcher for three years. Mr. Wang has over nine years of experience in corporate management and investment planning. He joined the Group in July 2003.

Mr. Luo Yongtai, aged 58, is a member of the audit committee of the Company. He is a professor in management of Tianjin University of Finance and Economics, the head of the Microeconomic Institute of Tianjin University of Finance and Economics, a member of the committee of the Tianjin City People's Political Consultative Conference, the deputy supervisor of the People's Republic of China System Engineering Committee and also held positions in various professional organisations. Mr. Luo is a beneficiary of the Expert Special Subsidy granted by the State Council of the PRC and has been engaged in various national and provincial projects in recent years. Mr. Luo is also an independent director of two companies listed on the Shanghai Stock Exchange. He joined the Group in July 2003.

Mr. Randy, Hung King Kuen, aged 39, is a member of the audit committee of the Company. He holds a bachelor's degree of accounting and a certificate of programming and data processing from the University of Southern California, a certificate of China Accounting, Finance, Taxation and Law from the Chinese University of Hong Kong, and a Hong Kong Securities Institute Specialist Certificate in corporate finance. Mr. Hung is a fellow certified public accountant in Hong Kong and a certified public accountant in the United States. Currently, Mr. Hung is an independent non-executive director of Zhongtian International Limited (Stock Code: 2379) and ZZNod Holdings Company Limited (Stock Code: 2371). Mr. Hung is a member of the American Institute of Certified Public Accountants, a fellow of the Hong Kong Institute of Certified Public Accountants, deputy chairman of training committee of the Hong Kong Institute of Directors and a member of the Hong Kong Securities Institute. Mr. Hung joined the Group on 30th September, 2004.

### SENIOR MANAGEMENT

Mr. Lui Siu Keung, aged 33, is the Group Financial Controller of the Group and the company secretary and qualified accountant of the Company. He joined the Group in June 2003 and is responsible for the financial and accounting operation of the Group. Mr. Lui has approximately eight years of experience in corporate finance, accounting and auditing fields. He graduated from The Hong Kong Polytechnic University with a bachelor of arts degree in accountancy. Mr. Lui is an associate member of the Hong Kong Institutes of Certified Public Accountants.

# Directors' Report

The directors of Zhongyu Gas Holdings Limited (the "Company") present their annual report and the audited financial statements for the period from 1st July, 2003 to 31st December, 2004.

## CHANGE OF NAME

Pursuant to a special resolution passed at an extraordinary general meeting held on 20th February, 2004, the name of the Company was changed from MRC Holdings Limited to Zhongyu Gas Holdings Limited.

## CHANGE OF FINANCIAL YEAR END DATE

During the year, the Company changed its financial year end date from 30th June to 31st December. The financial statements presented therefore cover the eighteen months period from 1st July, 2003 to 31st December, 2004.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and provides corporate management services to its subsidiaries. The activities of the Company's subsidiaries are set out in note 22 to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Company and its subsidiaries (collectively the "Group") for the period from 1st July, 2003 to 31st December, 2004 are set out in the consolidated income statement on page 21.

The directors of the Company (the "Directors") do not recommend the payment of a dividend and propose that the profit for the period be retained.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 15 to the financial statements.

## RESERVES

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its articles of association and provided that immediately following the distribution or dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. In the opinion of the Directors, as at 31st December, 2004, the Company's reserves available for distribution amounted to approximately HK\$43,183,000 which consisted of share premium of approximately HK\$48,817,000 less accumulated losses of approximately HK\$5,634,000.

## SHARE CAPITAL

Details of the movements in share capital are set out in note 27 to the financial statements.

## PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.



# Directors' Report

## DIRECTORS

The Directors during the period and up to the date of this report were:

### Executive Directors

Mr. Wang Wenliang ( <i>Chairman</i> )	(appointed on 10th July, 2003)
Mr. Hao Yu ( <i>Chief Executive Officer</i> )	(appointed on 10th July, 2003)
Mr. Li Weisong	(appointed on 10th July, 2003 and redesignated to non-executive director on 12th March, 2004)
Mr. Yang Jianguo	(appointed on 10th July, 2003 and redesignated to non-executive director on 12th March, 2004)
Mr. Li Zifeng	(appointed on 10th July, 2003 and redesignated to non-executive director on 12th March, 2004)
Mr. Lu Zhaoheng	(appointed on 24th June, 2004)
Mr. Ho Kwok Kin	(resigned on 10th July, 2003)
Mr. Peter David Hilling	(resigned on 10th July, 2003)
Mr. Lau Yuk Cheong	(resigned on 10th July, 2003)

### Non-executive Directors

Mr. Xu Yongxuan ( <i>Vice-Chairman</i> )	(appointed on 12th March, 2004)
Mr. Wang Lei	(appointed on 24th June, 2004)
Mr. Nicholas John Ashley Rigg	(appointed on 1st January, 2005)
Mr. Li Weisong	(redesignated from executive director on 12th March, 2004 and resigned on 23rd November, 2004)
Mr. Yang Jianguo	(redesignated from executive director on 12th March, 2004 and resigned on 23rd November, 2004)
Mr. Li Zifeng	(redesignated from executive director on 12th March, 2004 and resigned on 23rd November, 2004)

### Independent non-executive Directors

Mr. Wang Shunlong	(appointed on 31st July, 2003)
Dr. Luo Yongtai	(appointed on 31st July, 2003)
Mr. Hung, Randy King Kuen	(appointed on 30th September, 2004)
Mr. Ting Wai Cheung, Bernie	(resigned on 31st July, 2003)
Mr. Chan Kin Wai	(resigned on 31st July, 2003)

In accordance with the provisions of the Company's articles of association, Mr. Lu Zhaoheng, Mr. Xu Yongxuan, Mr. Wang Lei, Mr. Nicholas John Ashley Rigg and Mr. Hung, Randy King Kuen retire by rotation and, being eligible, offer themselves for re-election.

No Director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

The term of office of each non-executive Director is the period up to his retirement by rotation in accordance with the Company's articles of association.

## **DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE**

No contracts of significance to which the Company, its subsidiaries, its ultimate holding company or any subsidiaries of its ultimate holding company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period.

## **ONGOING CONNECTED TRANSACTION**

On 15th November, 2004, the Company and Hezhong Investment Holding Company Limited ("Hezhong"), a substantial shareholders of the Company, entered into the service agreement (the "Service Agreement") pursuant to which the Group agreed to provide Hezhong and its subsidiaries with natural gas projects management services, financial management services and human resources management services (collectively the "Management Services") in return for a service fee, the details of which were set out in the announcement of the Company dated 15th November, 2004 and the circular of the Company dated 7th December, 2004. The service fee is calculated on the estimated notional time costs incurred by the Group and a profit margin of 20% on the estimated notional time costs incurred by the Group. The ordinary resolution in respect of the provision of the Management Services to Hezhong by the Group was passed at the extraordinary general meeting of the Company on 23rd December, 2004. During the period under review, the Group received a service fee of HK\$9,600,000 from Hezhong.

The independent non-executive Directors, comprising Mr. Wang Shunlong, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen confirm that the aforesaid transaction has been entered into by the Company in the ordinary course of its business, on normal commercial terms, and in accordance with the terms of the Service Agreement and the terms of the Service Agreement are fair and reasonable so far as the independent shareholders (the "Independent Shareholders") of the Company are concerned and are in the interests of the Company and the Independent Shareholders as a whole.

# Directors' Report

## DISCLOSURE OF INTERESTS

### (a) Interests of Directors

As at 31st December, 2004, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of the Part XV of Securities and Future Ordinance (the "SFO")) (a) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.66 of Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") relating to securities transactions by Directors, were as follows:

Name of Directors	Name of company	Capacity	Number and class of securities
Mr. Wang Wenliang	The Company	Corporate (Note 1)	610,120,000 ordinary shares (L) of HK\$0.01 each
	Hezhong	Beneficial	26,000 ordinary shares (L) of US\$1.00 each
Mr. Hao Yu	Hezhong	Beneficial	6,000 ordinary shares (L) of US\$1.00 each

*Note 1:* These shares are held by Hezhong which is owned as to 52% by Mr. Wang Wenliang, as to 12% by Mr. Hao Yu, as to 12% by Mr. Yang Jianguo, as to 12% by Mr. Li Weisong and as to 12% by Mr. Li Zifeng. Mr. Yang Jianguo, Mr. Li Weisong and Mr. Li Zifeng had resigned as Directors during the period under review.

#### *L: Long position*

Save as disclosed above, as at 31st December, 2004, none of the directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (a) where were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.66 of the GEM Listing Rules relating to securities transactions by Directors.

As at 31st December, 2004, none of the Directors had any interest, direct or indirect, in any assets which had been, since 30th June, 2003, the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

As at 31st December, 2004, there was no contract or arrangement subsisting in which a Director was materially interested and which was significant in relation to the business of the Group.

**(b) Interests of substantial shareholders of the Company**

So far as is known to the Directors, as at 31st December, 2004, the following persons (not being directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name of shareholders	Name of company	Capacity	Number and class of securities
Hezhong	The Company	Beneficial	610,120,000 ordinary shares of HK\$0.01 each
Mr. Zheng Gang	The Company	Beneficial	150,000,000 ordinary shares of HK\$0.01 each

Save as disclosed above, as at 31st December, 2004, the Directors were not aware of any other person (other than the directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

**SHARE OPTIONS**

Particulars of the Company's share option schemes are set out in note 28 to the financial statements.

The following table discloses movements in the Company's share options during the period.

	Number of share options		
	Outstanding at 1st July, 2003	Cancelled during the period	Outstanding at 31st December, 2004
<b>Former Directors</b>			
Mr. Ho Kwok Kin	3,996,000	(3,996,000)	–
Mr. Lau Yuk Cheong	3,996,000	(3,996,000)	–
Mr. Peter David Hilling	996,000	(996,000)	–
	8,988,000	(8,988,000)	–
Employees	22,452,000	(22,452,000)	–
	<u>31,440,000</u>	<u>(31,440,000)</u>	<u>–</u>

## Directors' Report

The above share options (the "Share Options") were granted under the share option scheme adopted by the Company on 21st May, 2001 and entitled the holders of Share Options to subscribe for 31,440,000 shares of the Company (the "Shares") at an exercise price of HK\$0.16 per Share during the period from 8th March, 2002 to 7th March, 2012. On 10 July 2003, all Share Options to subscribe for 31,440,000 Shares were cancelled.

Save as disclosed above, at no time during the period was the Company, its subsidiaries, its ultimate holding company or any subsidiaries of its ultimate holding company a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

### MAJOR CUSTOMERS AND SUPPLIERS

The percentage of purchases for the period attributable to the Group's major suppliers were as follows:

- the largest supplier 22.29%
- five largest suppliers combined 73.76%

For the period from 1st July, 2003 to 31st December, 2004, the aggregate amount of turnover attributable to the Group's five largest customers accounted for less than 30% of the Group's total turnover.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in any of the five largest suppliers or customers of the Group.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association and there was no restriction against such rights under the laws of Cayman Islands.

### BOARD PRACTICES AND PROCEDURES

The Company had complied with Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules throughout the period from 1st July, 2003 to 31st December, 2004.

The Company has received a written annual confirmation of independence from each of the independent non-executive Directors pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all of the independent non-executive Directors are independent.

### CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, all Directors confirmed they have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company.

## SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the period from 31st July, 2003 to 31st December, 2004.

## AUDIT COMMITTEE

The Company has established an audit committee in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group and to provide advice and comments to the board of directors.

The audit committee comprises three independent non-executive Directors, including Mr. Wang Shunlong, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen. Mr. Wong Shunlong is the chairman of the audit committee. During the period from 1st July, 2003 to 31st December, 2004, the audit committee had held six meetings to discuss the Group's internal control with the Directors, and to review the Company's draft annual, quarterly and interim financial reports, circulars and announcements.

## COMPETING BUSINESS

During the period under review, none of the directors, the management shareholders or substantial shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) had any interest in a business which competed with or might compete with the business of the Group.

## AUDITORS

During the period, Messrs. Fan, Mitchell & Co., who acted as auditors of the Company for the past three years, resigned and Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company. A resolution will be submitted to the annual general meeting to re-appoint the auditors, Messrs. Deloitte Touche Tohmatsu.

On behalf of the Board

**Wang Wenliang**

*Chairman*

Hong Kong, 22nd March, 2005

# Auditors' Report

## Deloitte. 德勤

**TO THE MEMBERS OF  
ZHONGYU GAS HOLDINGS LIMITED**  
(FORMERLY KNOWN AS MRC HOLDINGS LIMITED)  
*(incorporated in the Cayman Islands with  
limited liability)*

We have audited the financial statements on pages 21 to 52 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made

by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December, 2004 and of the profit and cash flows of the Group for the period from 1st July, 2003 to 31st December, 2004 and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*

Hong Kong  
22nd March, 2005



# Consolidated Income Statement

For the period from 1st July, 2003 to 31st December, 2004

	<i>Notes</i>	<b>1.7.2003 to 31.12.2004 HK\$'000</b>	1.7.2002 to 30.6.2003 HK\$'000
<b>Turnover</b>	6	<b>15,267</b>	8,226
Cost of sales		<u>(4,758)</u>	<u>(2,131)</u>
<b>Gross profit</b>		<b>10,509</b>	6,095
Other operating income	8	<b>10,131</b>	162
Distribution costs		<b>(2,378)</b>	(1,823)
Administrative expenses		<b>(13,925)</b>	(7,857)
Other operating expenses		<u>(2,646)</u>	<u>(2,446)</u>
<b>Profit (loss) from operations</b>	9	<b>1,691</b>	(5,869)
Finance costs	10	–	(7)
<b>Profit (loss) before taxation</b>		<b>1,691</b>	(5,876)
Taxation	13	–	–
<b>Profit (loss) after taxation</b>		<b>1,691</b>	(5,876)
Minority interests		<u>(776)</u>	<u>485</u>
<b>Net profit (loss) for the period/year</b>		<b><u>915</u></b>	<b><u>(5,391)</u></b>
<b>Profit (loss) per share – basic</b>	14	<b><u>0.11 cents</u></b>	<b><u>(1.14) cents</u></b>

# Consolidated Balance Sheet

As at 31st December, 2004

	<i>Notes</i>	<b>31.12.2004</b> <i>HK\$'000</i>	30.6.2003 <i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment	15	10,431	564
Intangible assets	16	–	656
Deposit for investment	17	20,210	–
Goodwill	18	732	–
		<hr/>	<hr/>
		<b>31,373</b>	1,220
<b>Current assets</b>			
Inventories	19	3,083	–
Trade receivables	20	4,821	331
Deposits, prepayments and other receivables		5,925	1,364
Amount due from a director and loan to an officer	21	112	62
Amounts due from related companies	23	–	172
Bank balances and cash		22,919	444
		<hr/>	<hr/>
		<b>36,860</b>	2,373
<b>Current liabilities</b>			
Deferred income and advance received		1,578	1,004
Amounts due to customers for contract work	24	111	–
Trade payables	25	2,462	–
Other creditors and accrued charges		3,750	1,281
Amount due to a director	26	–	63
Amounts due to related companies	23	5,742	–
		<hr/>	<hr/>
		<b>13,643</b>	2,348
<b>Net current assets</b>			
		<hr/>	<hr/>
		<b>23,217</b>	25
<b>Capital and reserves</b>			
Share capital	27	10,628	4,054
Reserves		42,837	(2,517)
		<hr/>	<hr/>
		<b>53,465</b>	1,537
<b>Minority interests</b>			
		<b>912</b>	(864)
<b>Non-current liability</b>			
Provision for long service payment		213	572
		<hr/>	<hr/>
		<b>54,590</b>	1,245
		<hr/>	<hr/>

The financial statements on pages 21 to 52 were approved and authorised for issue by the Board of Directors on 22nd March, 2005 and are signed on its behalf by:

**Wang Wenliang**  
*Director*

**Hao Yu**  
*Director*

# Balance Sheet

As at 31st December, 2004

	<i>Notes</i>	<b>31.12.2004</b> <i>HK\$'000</i>	30.6.2003 <i>HK\$'000</i>
<b>Non-current assets</b>			
Deposit for investment	17	20,210	–
Investments in subsidiaries	22	23,704	10
		<u>43,914</u>	<u>10</u>
<b>Current assets</b>			
Other receivables		3	93
Bank balances and cash		13,517	279
		<u>13,520</u>	<u>372</u>
<b>Current liabilities</b>			
Other creditors and accrued charges		1,051	625
Amount due to ultimate holding company	23	2,572	–
		<u>3,623</u>	<u>625</u>
<b>Net current assets (liabilities)</b>		<u>9,897</u>	<u>(253)</u>
		<u><b>53,811</b></u>	<u><b>(243)</b></u>
<b>Capital and reserves</b>			
Share capital	27	10,628	4,054
Reserves	29	43,183	(4,297)
		<u>53,811</u>	<u>(243)</u>

## Consolidated Statement of Changes in Equity

For the period from 1st July, 2003 to 31st December, 2004

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Merger reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st July, 2002	4,054	4,378	3,740	(5,244)	6,928
Loss for the year	–	–	–	(5,391)	(5,391)
At 30th June, 2003	4,054	4,378	3,740	(10,635)	1,537
Issue of shares on rights issue	4,054	16,216	–	–	20,270
Issue of shares for acquisition of a subsidiary	1,500	11,732	–	–	13,232
Issue of shares on placement	1,020	17,340	–	–	18,360
Share issue expenses	–	(849)	–	–	(849)
Profit for the period	–	–	–	915	915
<b>At 31st December, 2004</b>	<b><u>10,628</u></b>	<b><u>48,817</u></b>	<b><u>3,740</u></b>	<b><u>(9,720)</u></b>	<b><u>53,465</u></b>

The merger reserve of the Group represents the difference between the nominal value of the share capital of a subsidiary acquired pursuant to the Group reorganisation completed on 21st May, 2001 and the nominal value of the share capital of the Company issued in exchange thereof.

# Consolidated Cash Flow Statement

For the period from 1st July, 2003 to 31st December, 2004

	<i>Notes</i>	<b>1.7.2003 to 31.12.2004 HK\$'000</b>	<b>1.7.2002 to 30.6.2003 HK\$'000</b>
<b>Operating activities</b>			
Profit (loss) before taxation		1,691	(5,876)
Adjustments for:			
Depreciation		1,192	587
Amortisation of intangible assets		656	657
Amortisation of goodwill		39	–
Reversal of allowance for doubtful debts		(268)	–
Interest income		(47)	(14)
<b>Operating cash flows before movements in working capital</b>		<b>3,263</b>	<b>(4,646)</b>
(Increase) decrease in trade receivables		(4,173)	1,290
(Increase) decrease in deposits, prepayments and other receivables		(780)	202
Decrease in amount due from a director and loan to an officer		32	93
Decrease in amounts due from related companies		172	(49)
Increase in inventories		(91)	–
Increase (decrease) in deferred income and advance received		574	(81)
Increase in amounts due to customers for contract work		111	–
Increase in trade payables		195	–
Increase in other creditors and accrued charges		1,122	138
(Decrease) increase in amount due to a director		(63)	63
(Decrease) increase in provision for long service payment		(359)	12
<b>Cash generated from (used in) operations</b>		<b>3</b>	<b>(2,978)</b>
Interest received		47	14
Tax paid		–	(437)
<b>Net cash from (used in) operating activities</b>		<b>50</b>	<b>(3,401)</b>
<b>Investing activities</b>			
Deposit paid for investment		(20,210)	(1,000)
Purchases of property, plant and equipment		(6,351)	(161)
Acquisition of a subsidiary	30	8,494	–
Acquisition of business	31	381	–
<b>Net cash used in investing activities</b>		<b>(17,686)</b>	<b>(1,161)</b>
<b>Financing activities</b>			
Increase (decrease) in amounts due to related companies		2,330	(21)
Proceeds from issue of new shares		38,630	–
Share issue expenses		(849)	–
<b>Net cash generated from (used in) financing activities</b>		<b>40,111</b>	<b>(21)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>22,475</b>	<b>(4,583)</b>
<b>Cash and cash equivalents at beginning of the period/year</b>		<b>444</b>	<b>5,027</b>
<b>Cash and cash equivalents at end of the period/year</b>		<b>22,919</b>	<b>444</b>
<b>Analysis of balances of cash and cash equivalents</b>			
Bank balances and cash		22,919	444

# Notes to the Financial Statements

For the period from 1st July, 2003 to 31st December, 2004

## 1. GENERAL

The Company was incorporated in the Cayman Islands on 12th February, 2001 as an exempted company with limited liability under the Companies Law (2001 Revision) of the Cayman Islands. The shares of the Company were listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Its ultimate holding company is Hezhong Investment Holding Company Limited (“Hezhong”), incorporated in the British Virgin Islands.

The Company acts as an investment holding company and provides corporate management services to its subsidiaries.

Its subsidiaries are principally engaged in the development, construction and operation of natural gas projects in the People’s Republic of China (the “PRC”), development and sales of software and provision of software maintenance services.

## 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements for the current period cover the 18 months period ended 31st December, 2004 because the directors determined to bring the balance sheet date in line with that of the subsidiaries established in the PRC. The corresponding amounts shown for the income statement, statement of changes in equity, cash flows and related notes cover a twelve months period from 1st July, 2002 to 30th June, 2003 and therefore may not be comparable with amounts shown for the current period.

## 3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standard (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The term HKFRS is inclusive of Statements of Standard Accounting Practice (“SSAPs”) and Interpretations approved by the HKICPA:

SSAP 12 (Revised)	Income Taxes
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The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of SSAP 12 (Revised) has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

#### **4. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS**

In 2004, the HKICPA issued a number of new or revised Hong Kong Accounting Standards and HKFRSs (herein collectively referred to as "New HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these New HKFRSs in the financial statements for the period ended 31st December, 2004.

The Group has commenced considering the potential impact of these New HKFRSs but is not yet in a position to determine whether these New HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These New HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

#### **5. SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

##### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30th June for prior periods and up to 31st December for the current period.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective dates of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

##### **Goodwill**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

##### **Investments in subsidiaries**

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.



# Notes to the Financial Statements

For the period from 1st July, 2003 to 31st December, 2004

## 5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Revenue recognition

Gas connection fees are recognised when the outcome of a contract can be estimated reliably and the stage of completion at the balance sheet date can be measured reliably. Revenue from gas connection contracts is recognised on the percentage of completion method, measured by reference to the value of work carried out during the year. When the outcome of a gas connection contract cannot be estimated reliably, revenue is recognised only to the extent of contract cost incurred that it is probable to be recoverable.

Software project income is recognised by reference to the stage of completion of the project at the balance sheet date. Stage of completion is generally determined by reference to the services performed to date as a proportion of total services to be performed.

Sales of goods are recognised when goods are delivered and title has passed.

Software maintenance service income is recognised on a straight-line basis over the life of the maintenance service agreements. The unearned portion of the maintenance service income received is stated as deferred income in the balance sheet.

Revenue from the lease of packaged software is recognised when the leasing income becomes due and receivable.

Course and seminar income is recognised when the related courses and seminars are held.

Sub-letting income is recognised on a straight-line basis over the respective lease term.

Software consultancy income, outsource fee income and management fee income are recognised when the related services are rendered.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

### Construction contracts

When the outcome of a construction contract can be estimated reliably, contract costs are charged to the income statement by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that costs incurred to date to estimated total costs for the contract.

When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

## 5. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Property, plant and equipment *(Continued)*

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Leasehold improvements	Over the useful life or the lease term, if shorter
Pipelines	Over the shorter of 30 years or operation period of the relevant company
Equipment and computers software	30%
Furniture and fixtures	20%
Motor vehicles	18%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

### Construction in progress

Construction in progress represents machinery and pipelines under construction for its own use purposes, or for purposes not yet determined and is stated at cost. Cost comprises direct and indirect costs of acquisition or construction. Completed items are transferred from construction in progress to proper categories of property, plant and equipment when they are ready for their intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for use.

### Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

### Operating leases

Operating leases rentals are charged to the income statement on a straight-line basis over the relevant lease term.

### Retirement benefits costs

Payments to the Mandatory Provident Fund Scheme ("MPF Scheme") and other schemes managed by the PRC government are charged as an expense as they fall due.

# Notes to the Financial Statements

For the period from 1st July, 2003 to 31st December, 2004

## 5. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items of income or expense that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### Inventories

Inventories, including construction materials, gas appliances, consumables and spare parts, are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

## 5. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

## 6. TURNOVER

	1.7.2003 to 31.12.2004 HK\$'000	1.7.2002 to 30.6.2003 HK\$'000
Software project income	8,099	4,794
Software maintenance service income	4,546	2,635
Gas connection fees	2,012	–
Sale of hardware	304	141
Sales of stoves and related equipment	215	–
Software consultancy income	63	551
Rental income of software	28	44
Course and seminar income	–	38
Outsource fee income	–	23
	<hr/>	<hr/>
	<b>15,267</b>	<b>8,226</b>

# Notes to the Financial Statements

For the period from 1st July, 2003 to 31st December, 2004

## 7. BUSINESS AND GEOGRAPHICAL SEGMENTS

### Business segments

For management purpose, the Group is currently organised into three major operating divisions: Gas pipeline construction, development and sale of software and software maintenance services.

Segment information about these business is presented below:

### Income statement for the period from 1st July, 2003 to 31st December, 2004

	Gas pipeline construction <i>HK\$'000</i>	Development and sale of software <i>HK\$'000</i>	Software maintenance services <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover	<u>2,012</u>	<u>8,162</u>	<u>4,546</u>	<u>547</u>	<u>15,267</u>
Segment results	<u>(2,769)</u>	<u>1,508</u>	<u>620</u>	<u>(19)</u>	(660)
Unallocated operating income					9,675
Unallocated corporate expenses					<u>(7,324)</u>
Profit from operations					1,691
Taxation					<u>-</u>
Profit after taxation					1,691
Minority interests					<u>(776)</u>
Net profit for the period					<u>915</u>

## 7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Balance sheet as at 31st December, 2004

	Gas pipeline construction <i>HK\$'000</i>	Development and sale of software <i>HK\$'000</i>	Software maintenance services <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>ASSETS</b>					
Segment assets	<u>15,161</u>	<u>4,448</u>	<u>806</u>	<u>27</u>	20,442
Goodwill	<u>732</u>	<u>-</u>	<u>-</u>	<u>-</u>	732
Unallocated corporate assets					<u>47,059</u>
Consolidated total assets					<u>68,233</u>
<b>LIABILITIES</b>					
Segment liabilities	<u>3,992</u>	<u>287</u>	<u>1,307</u>	<u>-</u>	5,586
Unallocated corporate liabilities					<u>8,270</u>
Consolidated total liabilities					<u>13,856</u>

Other information for the period from 1st July, 2003 to 31st December, 2004

	Gas pipeline construction <i>HK\$'000</i>	Development and sale of software <i>HK\$'000</i>	Software maintenance services <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Addition of goodwill	771	-	-	-	-	771
Capital expenditure	5,591	71	-	-	689	6,351
Depreciation	295	504	-	-	393	1,192
Amortisation of intangible assets	-	656	-	-	-	656
Amortisation of goodwill	39	-	-	-	-	39
Reversal of allowance for doubtful debts	<u>-</u>	<u>(268)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(268)</u>

# Notes to the Financial Statements

For the period from 1st July, 2003 to 31st December, 2004

## 7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

### Income statement for the year ended 30th June, 2003

	Gas pipeline construction <i>HK\$'000</i>	Development and sale of software <i>HK\$'000</i>	Software maintenance services <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover	–	5,345	2,635	246	8,226
Segment results	–	(87)	2,120	134	2,167
Unallocated operating income					14
Unallocated corporate expenses					(8,050)
Loss from operations					(5,869)
Finance costs					(7)
Loss before taxation					(5,876)
Taxation					–
Loss after taxation					(5,876)
Minority interests					485
Net loss for the year					(5,391)

### Balance sheet as at 30th June, 2003

	Gas pipeline construction <i>HK\$'000</i>	Development and sale of software <i>HK\$'000</i>	Software maintenance services <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>ASSETS</b>					
Segment assets	–	902	64	19	985
Unallocated corporate assets					2,608
Consolidated total assets					3,593
<b>LIABILITIES</b>					
Segment liabilities	–	167	1,010	1	1,178
Unallocated corporate liabilities					1,742
Consolidated total liabilities					2,920



## 7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

### Other information for the year ended 30th June, 2003

	Gas pipeline construction <i>HK\$'000</i>	Development and sale of software <i>HK\$'000</i>	Software maintenance services <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Capital expenditure	-	-	-	-	161	161
Depreciation	-	390	-	-	197	587
Amortisation of intangible assets	-	657	-	-	-	657
Allowance for doubtful debts	-	-	-	2	-	2
Bad debts written off	-	-	-	50	-	50
	<u>-</u>	<u>-</u>	<u>-</u>	<u>50</u>	<u>-</u>	<u>50</u>

### Geographical segments

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origins of goods/services:

	Sales revenue by geographical market	
	1.7.2003 to 31.12.2004 <i>HK\$'000</i>	1.7.2002 to 30.6.2003 <i>HK\$'000</i>
Hong Kong	12,764	6,765
The PRC	2,503	719
Others	-	742
	<u>15,267</u>	<u>8,226</u>

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and goodwill, analysed by the geographical area in which the assets are located.

	Carrying amount of segment assets		Additions to property, plant and equipment and goodwill	
	As at 31.12.2004 <i>HK\$'000</i>	30.6.2003 <i>HK\$'000</i>	1.7.2003 to 31.12.2004 <i>HK\$'000</i>	1.7.2002 to 30.6.2003 <i>HK\$'000</i>
Hong Kong	40,151	3,368	760	78
The PRC	28,082	123	11,070	83
Others	-	102	-	-
	<u>68,233</u>	<u>3,593</u>	<u>11,830</u>	<u>161</u>

# Notes to the Financial Statements

For the period from 1st July, 2003 to 31st December, 2004

## 8. OTHER OPERATING INCOME

	<b>1.7.2003 to 31.12.2004 HK\$'000</b>	1.7.2002 to 30.6.2003 HK\$'000
Management fee income ( <i>Note 36</i> )	9,600	–
Bank interest income	47	14
Sundry income	484	138
Training income	–	8
Exchange gain	–	2
	<b>10,131</b>	<b>162</b>

## 9. PROFIT (LOSS) FROM OPERATIONS

	<b>1.7.2003 to 31.12.2004 HK\$'000</b>	1.7.2002 to 30.6.2003 HK\$'000
Profit (loss) from operations has been arrived at after charging (crediting):		
Auditors' remuneration	480	263
Amortisation of intangible assets (included in other operating expenses)	656	657
Depreciation	1,192	587
Directors' emoluments ( <i>Note 11</i> )		
– fees	2,527	–
– other emoluments	–	1,823
Amortisation of goodwill (included in administrative expenses)	39	–
Operating lease rentals in respect of rented premises	828	908
(Reversal of) allowance for doubtful debts	(268)	2
Bad debts written off	–	50
Staff costs (including contributions to retirement benefits schemes of HK\$258,000 (1.7.2002 – 30.6.2003: HK\$238,000))	10,057	7,029
Cost of inventories recognised as expense	1,075	–
Reversal of provision for long service payment	(359)	–
Reversal of provision for annual leave	(307)	–

## 10. FINANCE COSTS

	<b>1.7.2003 to 31.12.2004 HK\$'000</b>	1.7.2002 to 30.6.2003 HK\$'000
Bank charges	<u>–</u>	<u>7</u>

## 11. DIRECTORS' EMOLUMENTS

	<b>1.7.2003 to 31.12.2004 HK\$'000</b>	1.7.2002 to 30.6.2003 HK\$'000
Fees	<b>2,527</b>	–
Other emoluments:		
– Basic salaries, allowances and benefits in kind	–	1,799
– Contributions to retirement benefits scheme	–	24
Total emoluments	<u><b>2,527</b></u>	<u>1,823</u>

The emoluments of directors are analysed as follows:

	<b>1.7.2003 to 31.12.2004 HK\$'000</b>	1.7.2002 to 30.6.2003 HK\$'000
Director A	<b>1,100</b>	N/A
Director B	<b>191</b>	N/A
Director C	<b>660</b>	N/A
Director D	<b>60</b>	N/A
Director E	<b>50</b>	N/A
Director F	<b>50</b>	N/A
Director G	<b>20</b>	N/A
Director H	<b>132</b>	N/A
Director I	<b>132</b>	N/A
Director J	<b>132</b>	N/A
Director K	–	N/A
Director L	–	896
Director M	–	660
Director N	–	177
Director O	–	45
Director P	–	45
	<u><b>2,527</b></u>	<u>1,823</u>

No emoluments were paid by the Group to the directors as a discretionary bonus or an inducement to join or upon joining the Group or as a compensation for loss of office for the period/year.

No directors waived any emoluments during the period/year.

# Notes to the Financial Statements

For the period from 1st July, 2003 to 31st December, 2004

## 12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2003: two) were directors of the Company. The emoluments of the remaining three (2003: three) individuals as follows:

	<b>1.7.2003 to 31.12.2004 HK\$'000</b>	1.7.2002 to 30.6.2003 HK\$'000
Basic salaries, allowances, and benefits in kind	<b>2,465</b>	1,311
Contributions to retirement benefits scheme	<b>48</b>	22
	<b><u>2,513</u></b>	<u>1,333</u>

Their emoluments were within the following bands:

	<b>Number of individuals</b>	
	<b>1.7.2003 to 31.12.2004</b>	1.7.2002 to 30.6.2003
Nil to HK\$1,000,000	<b><u>3</u></b>	<u>3</u>

## 13. TAXATION

The statutory tax rates for Hong Kong Profits Tax and the PRC Enterprise Income Tax are 17.5% (1.7.2002 to 30.6.2003: 17.5%) and 33% (1.7.2002 to 30.6.2003: 33%) respectively.

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company and its subsidiaries either had no assessable profits arising in Hong Kong or the assessable profits were wholly absorbed by estimated tax losses brought forward.

Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiaries are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years. No provision for PRC income tax has been made in the financial statements as all of the PRC subsidiaries had no assessable profit for both periods (2003: nil).

### 13. TAXATION *(Continued)*

The taxation for the period can be reconciled to the loss before taxation per the income statement as follows:

	Hong Kong		PRC		Total	
	1.7.2003 to 31.12.2004 HK\$'000	1.7.2002 to 30.6.2003 HK\$'000	1.7.2003 to 31.12.2004 HK\$'000	1.7.2002 to 30.6.2003 HK\$'000	1.7.2003 to 31.12.2004 HK\$'000	1.7.2002 to 30.6.2003 HK\$'000
Profit (loss) before taxation	3,481	(4,723)	(1,790)	(1,153)	1,691	(5,876)
Taxation at the domestic income tax rate	609	(826)	(591)	(380)	18	(1,206)
Tax effect of expenses not deductible for tax purpose	330	506	-	-	330	506
Tax effect of income not taxable for tax purpose	(602)	(130)	-	-	(602)	(130)
Tax effect of estimated tax losses not recognised	225	450	591	380	816	830
Tax effect of utilisation of estimated tax losses	(562)	-	-	-	(562)	-
Taxation for the year	-	-	-	-	-	-

At the balance sheet date, the Group had unused estimated tax losses of HK\$11,621,000 (30.6.2003: HK\$11,609,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unrecognised estimated tax losses due to unpredictability of future profit stream. Included in unrecognised tax losses are losses of HK\$7,088,000 (31.12.2003: HK\$3,393,000) that will expire in 2009. Other losses may be carried forward indefinitely.

### 14. PROFIT (LOSS) PER SHARE

The calculation of basic earnings (loss) per share is based on net profit for the period from 1st July, 2003 to 31st December, 2004 of HK\$915,000 (1.7.2002 to 30.6.2003: loss of HK\$5,391,000) and on the weighted average number of 863,867,000 (1.7.2002 to 30.6.2003: 472,967,000) shares. The loss per share for the year ended 30th June, 2003 has been adjusted for the effect of issue of shares on rights issue as set out in note 27.

No diluted earnings per share for the period from 1st July, 2003 to 31st December, 2004 has been presented because the exercise price of the Company's share options is higher than the average market price of the Company's shares for the period.

No diluted loss per share for the year ended 30th June, 2003 is presented as the exercise of the potential ordinary share would result in reduction in loss per share.

# Notes to the Financial Statements

For the period from 1st July, 2003 to 31st December, 2004

## 15. PROPERTY, PLANT AND EQUIPMENT

### THE GROUP

	Construction in progress HK\$'000	Leasehold improvements HK\$'000	Pipelines HK\$'000	Equipment and computer software HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>COST</b>							
At 1st July, 2003	-	360	-	1,479	363	-	2,202
Additions	5,570	356	-	322	103	-	6,351
Acquired on acquisition of a subsidiary	-	-	-	-	306	-	306
Acquired on acquisition of business	-	-	3,577	4	67	754	4,402
<b>At 31st December, 2004</b>	<b>5,570</b>	<b>716</b>	<b>3,577</b>	<b>1,805</b>	<b>839</b>	<b>754</b>	<b>13,261</b>
<b>DEPRECIATION</b>							
At 1st July, 2003	-	322	-	1,078	238	-	1,638
Provided for the period	-	297	90	489	203	113	1,192
<b>At 31st December, 2004</b>	<b>-</b>	<b>619</b>	<b>90</b>	<b>1,567</b>	<b>441</b>	<b>113</b>	<b>2,830</b>
<b>NET BOOK VALUES</b>							
At 31st December, 2004	<u>5,570</u>	<u>97</u>	<u>3,487</u>	<u>238</u>	<u>398</u>	<u>641</u>	<u>10,431</u>
At 30th June, 2003	<u>-</u>	<u>38</u>	<u>-</u>	<u>401</u>	<u>125</u>	<u>-</u>	<u>564</u>

## 16. INTANGIBLE ASSETS

### THE GROUP

	<b>Deferred development costs HK\$'000</b>
<b>COST</b>	
At 1st July, 2003 and 31st December, 2004	1,969
<b>ACCUMULATED AMORTISATION</b>	
At 1st July, 2004	1,313
Provided for the period	656
<b>At 31st December, 2004</b>	<b>1,969</b>
<b>NET BOOK VALUES</b>	
At 31st December, 2004	<u>-</u>
At 30th June, 2003	<u>656</u>

Deferred development costs are amortised on a straight-line basis over 3 years.

## 17. DEPOSIT FOR INVESTMENT

### THE GROUP AND THE COMPANY

During the period, the Group entered into a joint venture agreement (“JV agreement”) with The Department of City Natural Gas Engineering of Linyi City (“CNGE”), pursuant to which the Group and CNGE agreed to establish Linyi ZhongYu City Gas Construction Development Company Limited (“Linyi ZhongYu JV”) to engage in the construction and operation of piped natural gas projects.

The total registered capital of Linyi Zhong Yu JV is HK\$39,622,010 of which HK\$20,210,000 is contributed by the Group and HK\$19,412,000 is contributed by CNGE. Linyi Zhong Yu JV will be owned as to 51% by the Group and as to 49% by CNGE. As at 31st December, 2004, the relevant capital verification has not been completed and Linyi Zhong Yu JV has not commenced operation. Accordingly, the amount of HK\$20,210,000 was accounted for as a deposit for investment in the consolidated balance sheet at 31st December, 2004.

## 18. GOODWILL

### COST

Arising on acquisition of a subsidiary during the period and balance at 31st December, 2004

771

### AMORTISATION

Provided for the period and balance at 31st December, 2004

39

### NET BOOK VALUE

At 31st December, 2004

732

Goodwill is amortised a straight-line basis of 20 years.

## 19. INVENTORIES

	THE GROUP	
	31.12.2004 HK\$'000	30.6.2003 HK\$'000
Work-in-progress	2,387	–
Construction materials	696	–
	<u>3,083</u>	<u>–</u>

# Notes to the Financial Statements

For the period from 1st July, 2003 to 31st December, 2004

## 20. TRADE RECEIVABLES

The trading terms with customers are largely on credit. Invoices are normally payable within 30 days of issuance. The following is an aged analysis of trade receivables at the balance sheet date:

	THE GROUP	
	31.12.2004 HK\$'000	30.6.2003 HK\$'000
0 – 30 days	1,953	356
31 – 90 days	703	357
91 – 180 days	1,242	57
Over 180 days	1,362	290
	<hr/>	<hr/>
	5,260	1,060
Less: Allowance for doubtful debts	(439)	(729)
	<hr/>	<hr/>
	<b>4,821</b>	<b>331</b>
	<hr/> <hr/>	<hr/> <hr/>

## 21. AMOUNT DUE FROM A DIRECTOR AND LOAN TO AN OFFICER

### THE GROUP

The amount due from a director and a loan to an officer disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

Director/officer	Term of loan	At	At	Maximum
		31st December, 2004 HK\$'000	30th June, 2003 HK\$'000	amount outstanding during the period the period HK\$'000
Mr. Hao Yu (Director)	Unsecured, interest-free, repayable on demand	82	–	82
Mr. Alex Ng Tin Lok (Key management of the Group)	Unsecured, interest-free, repayable by 50 monthly installments	30	62	62
		<hr/>	<hr/>	
		<b>112</b>	<b>62</b>	
		<hr/> <hr/>	<hr/> <hr/>	



## 22. INVESTMENTS IN SUBSIDIARIES

	<b>31.12.2004</b> <b>HK\$'000</b>	30.6.2003 <i>HK\$'000</i>
Unlisted shares, at cost	<b>10</b>	10
Amounts due from subsidiaries	<b>30,225</b>	6,375
Less: Allowance	<b>(6,531)</b>	(6,375)
	<b>23,704</b>	10

The amounts due from a subsidiaries are unsecured, interest-free and has no fixed terms of repayment. In the opinion of the directors, the amounts will not be repaid within the next twelve months from the balance sheet date. Accordingly, they are classified as non-current.

Particulars of the subsidiaries at 31st December, 2004 are as follows:

Name	Country/ place of incorporation/ registration	Form of business structure	Particulars of issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
				Directly %	Indirectly %	
Portwood International Limited	British Virgin Islands	Incorporated	1 ordinary share of US\$1	100	-	Investment holding
China Gas Construction Expansion Company Limited ("CGCE")	British Virgin Islands	Incorporated	50,000 ordinary shares of US\$1 each	-	97	Investment holding
Linyi China Gas City Gas Construction Company Limited ("Linyi China Gas")	PRC	Sino-foreign joint venture	Registered capital HK\$1,000,000	-	97	Trading of natural gas and gas pipeline construction
Hanzhong China - Gas City Gas Development Company Limited ("Hanzhong")	PRC	Sino-foreign joint venture	Registered capital HK\$1,000,000	-	90	Trading of natural gas and gas pipeline construction
Cyber Dynamic Enterprise Limited	British Virgin Islands	Incorporated	10,311 ordinary shares of US\$1 each	100	-	Investment holding
Manpower Resource Computing Limited ("MRCL")	Hong Kong	Incorporated	1,300,000 ordinary shares of HK\$1 each	-	100	Development and distribution of human resource management software system and provision of maintenance and consultancy services

# Notes to the Financial Statements

For the period from 1st July, 2003 to 31st December, 2004

## 22. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Country/ place of incorporation /registration	Form of business structure	Particulars of issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
				Directly %	Indirectly %	
Manpower Resource Computing (China) Limited	Hong Kong	Incorporated	1,600,000 ordinary shares of HK\$1 each	-	70	Investment holding
MRC Human Capital Services Limited	Hong Kong	Incorporated	675,000 ordinary shares of HK\$1 each	-	78	Inactive
晉興電腦軟件開發 (東莞)有限公司 (「晉興」)	PRC	Wholly-owned foreign-owned enterprise	Registered capital US\$200,000	-	70	Development and distribution of human resource software system and provision of maintenance and consultancy services

Other than 晉興, Linyi China Gas and Hanzhong which principally operate in the PRC, the remaining subsidiaries operate in Hong Kong.

## 23. AMOUNTS DUE FROM AND TO RELATED COMPANIES

	THE GROUP		THE COMPANY	
	31.12.2004 HK\$'000	30.6.2003 HK\$'000	31.12.2004 HK\$'000	30.6.2003 HK\$'000
Amounts due from related companies:				
Amount due from a ex-shareholder	-	21	-	-
Amount due from former ultimate holding company	-	4	-	-
Amount due from a related company (Note a)	-	147	-	-
	<u>-</u>	<u>172</u>	<u>-</u>	<u>-</u>
Amounts due to related companies:				
Amount due to ultimate holding company	2,572	-	2,572	-
Amount due to a minority shareholder	2,696	-	-	-
Amount due to a related company (Note b)	474	-	-	-
	<u>5,742</u>	<u>-</u>	<u>2,572</u>	<u>-</u>

Notes:

- A former independent non-executive director of the Company, Mr. Ting Wai Chong, Bernie, is the director of the related company.
- The director of Company, Mr. Wang Wenliang, is the director of the related company.

The amounts are unsecured, interest-free and have no fixed repayment terms.

## 24. AMOUNTS DUE TO CUSTOMERS FOR CONTRACT WORK

	THE GROUP	
	31.12.2004 HK\$'000	30.6.2003 HK\$'000
Contracts in progress at the balance sheet date:		
Contract costs incurred plus recognised profits	290	–
Less: Progress billings	(401)	–
	<hr/>	<hr/>
Amounts due to customers for contract work	<b>(111)</b>	–
	<hr/> <hr/>	<hr/> <hr/>

## 25. TRADE PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	THE GROUP	
	31.12.2004 HK\$'000	30.6.2003 HK\$'000
0 – 30 days	240	–
31 – 90 days	2	–
91 – 180 days	237	–
Over 180 days	1,983	–
	<hr/>	<hr/>
	<b>2,462</b>	–
	<hr/> <hr/>	<hr/> <hr/>

## 26. AMOUNT DUE TO A DIRECTOR

The amounts was unsecured, non-interest bearing and was repaid during the period.

## 27. SHARE CAPITAL

	Ordinary shares of HK\$0.01 each	
	No. of shares	HK\$'000
Authorised	<u>10,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At 1st July, 2002 and 30th June, 2003	405,400,000	4,054
Issue of shares on rights issue ( <i>note a</i> )	405,400,000	4,054
Issue of shares for acquisition of a subsidiary ( <i>note b</i> )	150,000,000	1,500
Issue of shares on placement ( <i>note c</i> )	102,000,000	1,020
	<hr/>	<hr/>
<b>At 31st December, 2004</b>	<b><u>1,062,800,000</u></b>	<b><u>10,628</u></b>

# Notes to the Financial Statements

For the period from 1st July, 2003 to 31st December, 2004

## 27. SHARE CAPITAL *(Continued)*

*Notes:*

- (a) On 13th October, 2003, 405,400,000 shares of HK\$0.01 each were issued by way of rights issue at a subscription price of HK\$0.05 per share. The proceeds before expenses totalled HK\$20,270,000 were used to strengthen its capital base and improve its financial position to provide flexibility to pursue any new business opportunities for the Group's future development and expansion.
- (b) On 17th December, 2003, the Group allotted and issued 150,000,000 new shares of HK\$0.01 each as a consideration to acquire a 97% equity interest in CGCE. The consideration for the acquisition was approximately HK\$13,232,000.
- (c) On 2nd November, 2004, 102,000,000 shares of HK\$0.01 each were issued to independent third parties through a placement at a subscription price of HK\$0.18 per share. The proceeds before expenses totalled HK\$18,360,000 were used to broaden the Company's shareholders base as well as to strengthen the Company's capital base so as to provide flexibility for the Company to capture any new investment opportunities if and when opportunities arise.

All the shares issued during the period rank pari passu with the existing shares in all respects.

## 28. SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed on 21st May, 2001, the Company adopted a share option scheme ("Old Share Option Scheme") pursuant to which the director were authorised to grant share options to full-time employees (including executive directors) of the Company or any of its subsidiaries to subscribe for shares in the Company.

On 24th October, 2003, the Old Share Option Scheme was terminated and a new share option scheme ("New Share Option Scheme") was adopted.

Under the New Share Option Scheme of the Company, the directors of the Company may offer to any employees including directors of the Company or any of its subsidiaries share options to subscribe for shares in the Company in accordance with the terms of the New Share Option Scheme.

The maximum number of share in respect of which share options may be granted under the New Share Option Scheme shall not, when aggregated with any shares subject to any other schemes, exceed such number of shares as represent 10% of the issued shares as at the date of approval of the New Share Option Scheme (the "Scheme Mandate Limit") which shall be equivalent to 81,080,000 shares. The Company may seek approval from the shareholders in a general meeting to refresh the Scheme Mandate Limit. However, the total number of shares which may be issued upon exercise of all share options to be granted under all of the schemes of the Company or its subsidiaries under the limit as refreshed must not exceed 10% of the shares in issue as at the date of approval of the Scheme Mandate Limit. Share options previously granted under the New Share Option Scheme (including those outstanding, cancelled, lapsed in accordance with the New Share Option Scheme or any other share option schemes and exercised the share options) will not be counted for the purpose of calculating the Scheme Mandate Limit.

The total number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the New Share Option Scheme and any other scheme of the Company must not exceed 30% of the total issued shares from time to time.

## 28. SHARE OPTION SCHEME *(Continued)*

The total number of shares issued and to be issued on the exercise of share options granted and to be granted in any 12-month period up to the date of grant of each eligible participant shall not exceed 1% of the total issued shares.

No share option has been granted since the adoption of the New Share Option Scheme on 24th October, 2003.

The following table discloses details of the Company's share options granted under the Old Share Option Scheme and movements in such holdings:

Category of grantee	Exercise price per share HK\$	Exercisable period	Number of share options				
			At 1st July, 2002	Lapsed during the year (Note)	At 30th June, 2003	Cancelled during the period	At 31st December, 2004
Directors	0.16	8th March, 2002 to 7th March, 2012	8,988	–	8,988	(8,988)	–
Employees	0.16	8th March, 2000 to 7th March, 2012	26,436	(3,984)	22,452	(22,452)	–
			<u>35,424</u>	<u>(3,984)</u>	<u>31,440</u>	<u>(31,440)</u>	<u>–</u>

*Note:* In July 2003, all the holders of share options accepted the mandatory unconditional cash offer made by Hezhong to cancel all the outstanding share options. Details of the offer were set out in the Company's circular dated 19th June, 2003.

The financial impact of the share options granted is not recorded in the Company's or the Group's balance sheet until such time as the share options are exercised, and no charge is recognised in the income statement in respect of the value of share options granted in the year/period. Upon exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Share options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding share options.

# Notes to the Financial Statements

For the period from 1st July, 2003 to 31st December, 2004

## 29. RESERVES

	Share premium HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE COMPANY			
At 1st July, 2002	4,378	(4,410)	(32)
Loss for the year	–	(4,265)	(4,265)
At 30th June, 2003	4,378	(8,675)	(4,297)
Issue of shares on rights issue	16,216	–	16,216
Issue of shares for acquisition of a subsidiary	11,732	–	11,732
Issue of shares on placement	17,340	–	17,340
Share issue expenses	(849)	–	(849)
Profit for the period	–	3,041	3,041
At 31st December, 2004	<u>48,817</u>	<u>(5,634)</u>	<u>43,183</u>

## 30. ACQUISITION OF A SUBSIDIARY

On 19th December, 2003 (“Date of Acquisition”), the Group acquired 97% of the issued share capital of CGCE from Mr. Zheng Gang (the “Vendor”). This acquisition has been accounted for by the acquisition method of accounting. Pursuant to the agreement entered between the Group and the Vendor, the Vendor has irrevocably undertaken to the Group that should any loss be incurred by CGCE for the year ended to 31st December, 2004 (the “Loss”), the Vendor should pay the Group 97% of the sum of HK\$2,800,000 and the Loss. The Loss of CGCE amounted to approximately HK\$859,000. Accordingly, the total compensation to be received by Group from the Vendor will be approximately HK\$3,549,000 (“Loss Compensation”).

The closing share price of the Company quoted on the Stock Exchange on the Date of Acquisition is HK\$0.16 (“Closing Price”). The directors of the Company consider the Closing Price is not a reliable indicator to measure the fair value of the Company’s shares due to undue fluctuation of the share price and thin trading volume of the Company’s shares.

The consideration of the acquisition is estimated by reference to the Group’s proportionate interest in the fair value of CGCE on 19th December, 2003 and amounted to approximately HK\$13,232,000. The fair value of CGCE was valued at approximately HK\$13,232,000 by 河南勤德聯合會計師事務所 on a discounted cash flow basis. Should the Closing Price of the Company’s shares was adopted, the market price of the shares being issued for acquisition should be HK\$24,000,000.

### 30. ACQUISITION OF A SUBSIDIARY (Continued)

	<b>2004</b> <b>HK\$'000</b>
NET ASSETS ACQUIRED	
Property, plant and equipment	306
Other receivables	30
Bank balances and cash	8,494
Amount due from a director	82
	<hr/>
	8,912
Goodwill	771
	<hr/>
Total consideration	<b>9,683</b>
	<hr/> <hr/>
SATISFIED BY	
Shares allotted	13,232
Less: Loss Compensation	(3,549)
	<hr/>
	<b>9,683</b>
	<hr/> <hr/>
Net cash inflow arising on acquisition:	
Bank balances and cash acquired	<b>8,494</b>
	<hr/> <hr/>

The subsidiary acquired during the period contributed HK\$290,000 to the Group's turnover, and HK\$2,186,000 to the Group's loss from operations.

### 31. ACQUISITION OF BUSINESS

On 18th March, 2004, the Group entered into an agreement with Hanzhong City Natural Gas Company Limited ("HCNG"), pursuant to which the Group and HCNG agreed to establish Hanzhong to engage in the design and construction of natural gas pipeline network and ancillary facilities and sale of natural gas, as well as sale and maintenance of natural gas appliances in Hanzhong city. Hanzhong was owned as to 90% by the Group and the remaining 10% by HCNG.

# Notes to the Financial Statements

For the period from 1st July, 2003 to 31st December, 2004

## 31. ACQUISITION OF BUSINESS *(Continued)*

The registered capital of the Hanzhong is HK\$10,000,000 of which HK\$9,000,000 was contributed by the Group in cash and the remaining HK\$1,000,000 was contributed by HCNG by way of contribution of certain assets and liabilities. The fair value of assets and liabilities of Hanzhong on its establishment are as follows:

	<i>HK\$'000</i>
Contributed by HCNG:	
Property, plant and equipment	4,402
Inventories	2,992
Trade receivables	49
Deposits, prepayments and other receivables	202
Bank balances and cash	381
Trade payables	(2,267)
Other creditors and accrued charges	(1,347)
Amounts due to related companies	(3,412)
	<hr/>
	1,000
Cash contributed by the Group	<hr/> 9,000
	<hr/>
Net assets of Hanzhong	10,000
Equity interest owned by the Group	90%
Net asset attributable to the Group	<hr/> <hr/> 9,000
	<hr/>
Net cash inflow arising on the establishment of Hanzhong	
Bank balances and cash	<hr/> <hr/> 381

The business established during the period contributed HK\$2,293,000 to the Group's turnover, and HK\$892,000 to the Group's loss from operations.

## 32. MAJOR NON-CASH TRANSACTION

On 19th December, 2003, the Group acquired 97% of the issued share capital of CGCE for a consideration of HK\$13,232,000, which was satisfied by the allotment and issue of the Company's shares.

## 33. RETIREMENT BENEFITS PLANS

The Group had joined the Mandatory Provident Fund Scheme under the rules and regulations of the Mandatory Provident Fund Schemes Authority. The Group's employees in Hong Kong are required to join the scheme. Both the Group and its employees in Hong Kong has made a contribution at 5% of the employees' monthly relevant income capped at HK\$20,000.

The Company's subsidiaries in the PRC, in compliance with the applicable regulations of the PRC, participated in various central pension schemes operated by the relevant municipal and provincial governments. These subsidiaries are required to make defined contributions to these schemes at rates ranging from 14% to 24% of their covered payroll. The Group has no other material obligation for the payment of its staff's retirement and other post-retirement benefits other than the contributions described above.



## 34. OPERATING LEASE ARRANGEMENTS

### The Group as lessee

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented office premises and staff quarters which fall due as follows:

	<b>31.12.2004</b> <i>HK\$'000</i>	30.6.2003 <i>HK\$'000</i>
Within one year	<b>430</b>	267
In the second to fifth year inclusive	<b>14</b>	241
	<b>444</b>	508

Leases for rented premises are negotiated for a period of one to two years with fixed rental.

## 35. CAPITAL COMMITMENTS

### THE GROUP

	<b>31.12.2004</b> <i>HK\$'000</i>	30.6.2003 <i>HK\$'000</i>
Capital expenditure contracted but not provided for	<b>72</b>	–

Capital commitments disclosed above represent an amount in respect of capital contributions to a subsidiary registered in the PRC.

## 36. RELATED PARTY TRANSACTIONS

Apart from the amounts due from and to related parties disclosed in notes 21, 23 and 26, during the period, the Company had the following transactions with related parties:

	<b>Management fee income</b>		<b>Rental expenses</b>	
	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Hezhong ( <i>note i</i> )	<b>9,600</b>	–	–	–
Mr. Ho Kwok Kin and Ms. So Miu Han ( <i>note ii</i> )	–	–	<b>53</b>	180
Mr. Lau Yuk Cheong ( <i>note iii</i> )	–	–	<b>40</b>	99

Notes:

- (i) During the period, the Group entered into a service agreement with Hezhong Investment Holding Company Limited (“Hezhong”), a substantial shareholder of the Company, pursuant to which the Company agreed to provide Hezhong with the nature gas projects management services, financial management services and human resources management services in return for a service fee which is calculated as the estimated notional time costs incurred by the Group and a profit margin of 20% on the estimated notional time costs incurred by the Group.

# Notes to the Financial Statements

For the period from 1st July, 2003 to 31st December, 2004

## 36. RELATED PARTY TRANSACTIONS *(Continued)*

- (ii) Mr. Ho Kwok Kin and his wife, Madam So Miu Han, both are directors of MRCL, leased a property to MRCL. The property was used as the director's quarter during the period. The rental was determined on prices agreed between the parties.
  
- (iii) Mr. Lau Yuk Cheong, an ex-director of MRCL and Madam Lui Wai Yi, Vinan and Mr. Lui Yuen Hong, the wife and father-in-law of Mr. Lau Yuk Cheong, leased a property to MRCL. The property was used as the director's quarter during the period. The rental was determined on prices agreed between the parties.

## Financial Summary

	<b>1.7.2003 to 31.12.2004</b> <i>HK\$'000</i>	<b>1.7.2002 to 30.6.2003</b> <i>HK\$'000</i>	<b>1.7.2001 to 30.6.2002</b> <i>HK\$'000</i> (Restated) <i>(Note 1)</i>	<b>1.7.2000 to 30.6.2001</b> <i>HK\$'000</i>	<b>1.7.1999 to 30.6.2000</b> <i>HK\$'000</i> <i>(Note 2)</i>
Results					
Turnover	<u><b>15,267</b></u>	<u>8,226</u>	<u>6,281</u>	<u>8,753</u>	<u>5,069</u>
Net profit (loss) for the period/year	<u><b>915</b></u>	<u>(5,391)</u>	<u>(7,710)</u>	<u>3,011</u>	<u>199</u>
	<b>31.12.2004</b> <i>HK'000</i> <i>(Note 3)</i>	<b>30.6.2003</b> <i>HK'000</i> <i>(Note 3)</i>	<b>30.6.2002</b> <i>HK'000</i> <i>(Note 3)</i>	<b>30.6.2001</b> <i>HK'000</i> <i>(Note 3)</i>	
Assets and liabilities					
Total assets	<b>68,233</b>	3,593	9,956	18,908	
Total liabilities	<b>(13,856)</b>	(2,920)	(3,407)	(2,222)	
Minority interests	<b>(912)</b>	864	379	–	
Shareholders' funds	<u><b>53,465</b></u>	<u>1,537</u>	<u>6,928</u>	<u>16,686</u>	

### Notes:

1. During the year ended 30th June, 2003, the Group adopted SSAP 11 (Revised) "Foreign currency translation and SSAP 34 "Employee benefits" which resulted in changes in the Group's accounting policies which had been described in the Company's consolidated financial statements for year ended 30th June, 2003. Accordingly, the figures have been restated.
2. The results for the year ended 30th June, 2000 have been prepared on a combined basis to indicate the results of the Group as if the Group structure, at the time when the Company's shares were listed on The Stock Exchange of Hong Kong Limited had been in existence throughout the years concerned. The figures for the year ended 30th June, 2000 have been extracted from the prospectus dated 30th May, 2001 issued by the Company.
3. The Company was incorporated in Cayman Islands on 12th February, 2001 and became the holding company of the Group with effect from 21st May, 2001 as a result of the reorganization as set out in the prospectus dated 30th May, 2001 issued by the Company. Accordingly, the balance sheets of the Group that have been prepared are those set out above.

## Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the annual general meeting of Zhongyu Gas Holdings Limited (the "Company") will be held at Suite 3016, 30th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong on Monday, 25th April, 2005 at 11:00 a.m. for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors and auditors of the Company for the eighteen months ended 31st December, 2004;
2. To re-elect retiring directors of the Company (the "Directors") and authorise the board of Directors (the "Board") to fix their remuneration;
3. To re-appoint Messrs. Deloitte Touche Tohmatsu as the Company's auditors and to authorise the Board to fix their remuneration;

and, as special business, to consider and, if thought fit, to pass the following resolutions as ordinary resolutions of the Company:

4. **"THAT**

conditional upon The Stock Exchange of Hong Kong Limited ("Stock Exchange") granting approval of the listing of, and permission to deal in, any shares of the Company (the "Shares") which may be issued by the Company pursuant to the exercise of the options ("Share Options") to be granted under the share option scheme of the Company adopted on 24th October, 2003 ("Share Option Scheme"), the Directors be and hereby authorized, at their absolute discretion to grant, in accordance with the terms of the Share Option Scheme and the requirements of Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange ("GEM Listing Rules") as may be amended from time to time, Share Options and to allot and issue Shares pursuant to the exercise of such Share Options up to 10% of the issued share capital of the Company as at the date of the passing of this resolution."

5. **"THAT**

- (i) subject to paragraph (iii) of this resolution, pursuant to the GEM Listing Rules, the exercise by the Directors during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options (including bonds, warrants and debentures convertible into shares) which might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (ii) the approval in paragraph (i) of this resolution shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
- (iii) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in paragraph (i) of this resolution, otherwise than pursuant to (a) a Rights Issue (as defined below), (b) the exercise of warrants to subscribe for shares of the Company or the exercise of options granted under any ordinary share option scheme adopted by the Company, or (c) an issue of shares of the Company in lieu of whole or part of a dividend on shares of the Company in accordance with the articles of association ("Articles") of the Company, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution and this approval shall be limited accordingly; and

- (iv) for the purpose of this resolution:

“Relevant Period” means the period from the date of this resolution until whichever is the earliest of:

- (a) the conclusion of the next annual general meeting of the Company;
- (b) the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable laws of Cayman Islands to be held; and
- (c) the date on which the authority sets out in this resolution is revoked or varied by an ordinary resolution in general meeting.

“Rights Issue” means offer of shares of the Company open for a period fixed by the directors of the Company to holders of shares on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares as at that date (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to overseas shareholders or fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory outside Hong Kong).”

6. **“THAT**

- (i) subject to paragraph (ii) of this resolution, the exercise by the Directors during the Relevant Period (as defined below) of all powers of the Company to repurchase issued shares in the capital of the Company on the Growth Enterprise Market of the Stock Exchange (“GEM”) or any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for such purpose, subject to and in connection with all applicable laws and/or the requirements of the GEM Listing Rules or of any other stock exchange as amended from time to time, be and the same is hereby generally and unconditionally approved;
- (ii) the aggregate nominal amount of shares of the Company which the Company is authorised to repurchase pursuant to the approval in paragraph (i) of this resolution shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution, and this approval shall be limited accordingly; and
- (iii) for the purpose of this resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:

- (a) the conclusion of the next annual general meeting of the Company;
- (b) the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable laws to be held; and
- (c) the date on which the authority sets out for this resolution is revoked or varied by an ordinary resolution in general meeting.”

## Notice of Annual General Meeting

7. “**THAT** conditional upon ordinary resolutions nos. 5 and 6 above being passed, the aggregate nominal amount of shares of the Company which are repurchased by the Company under the authority granted to the Directors as mentioned in ordinary resolution no. 6 above shall be added to the aggregate nominal amount of share capital that may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to ordinary resolution no. 5 above.”

By Order of the Board  
**Wang Wenliang**  
*Chairman*

Hong Kong, 30th March, 2005

*Registered Office:*  
Century Yard  
Cricket Square  
Hutchins Drive  
P.O. Box 2681 GT  
George Town  
Grand Cayman  
British West Indies

*Head Office and Principal  
Place of Business:*  
Suite 3016, 30th Floor  
One International Finance Centre  
1 Harbour View Street  
Central  
Hong Kong

*Notes:*

- (i) A member of the Company entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxy to attend and, on a poll, vote instead of such member. A proxy need not be a member of the Company.
- (ii) In order to be valid, the proxy form together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority, must be deposited at the Company's branch share registrar and transfer office in Hong Kong, Secretaries Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for the meeting or any adjourned meeting.
- (iii) Where there are joint holders of any share of the Company, any one of such holders may vote at the meeting either personally or by proxy in respect of such share as if he were solely entitled thereto, but if more than one of such holders be present at the meeting personally or by proxy, then the one of such holders whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof. Several executors or administrators of a deceased member in whose name any share stands shall for this purpose be deemed joint holders thereof.
- (iv) Delivery of an instrument appointing a proxy should not preclude a member from attending and voting in person at the meeting and in such event, the instrument appointing a proxy shall be deemed to be revoked.
- (v) An explanatory statement containing further details regarding ordinary resolution no. 6 as required by the GEM Listing Rules will be dispatched to the members of the Company together with the annual report of the Company for the eighteen months ended 31st December, 2004.

